

STATE CONTROLLER'S OFFICE
PERSONNEL/PAYROLL SERVICES DIVISION
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DATE: November 22, 2005

PAYROLL LETTER #05-021

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: JOHN R. HARRIGAN, Chief
Personnel/Payroll Services DivisionRE: **ACCOUNTS RECEIVABLE PROCEDURE CHANGE**

In an effort to streamline the identification and collection of salary overpayments, effective December 1, 2005 Personnel/Payroll Operations will begin establishing Accounts Receivable (ARs) as agency collection.

Due to a high volume of outstanding salary overpayments and limited staff available to monitor the establishment of respective ARs, it was determined a procedural change was needed to enhance our process. As such, a six - month pilot program was conducted, in which five departments and two campuses worked with Personnel/Payroll Operations on reengineering the AR process. Specifically, to ensure salary overpayments were handled in a timelier manner, Personnel/Payroll Operations initiated a process whereby ARs were established as agency collection, shortly after the overpayment was discovered. This process worked well as it immediately identified the amount the employee was overpaid and the agency could either collect the money from the employee or request us to change the method of collection to payroll deduction. During the pilot, we found some ARs had to be reversed because the PAR was subsequently corrected or the overpayment was redeposited. To resolve this, we used a three-week lag period from the date of the overpayment to the date we established the AR. This change improved the process as it reduced the vast majority of ARs that needed to be reversed. At the conclusion of the pilot program, the agencies that participated were overwhelmingly in favor of this new procedure.

Our new process will also allow our staff to continue sending the Notice of Pending Overpayment in cases where our audit indicates either the salary rate or time indicated on the PAR is in error. Examples of this would be:

- A 350 transaction where the dollar amount for a premium pay is shown but the EID was not reentered.
- A separation effective at the end of the month but time to be paid (item 606) on the PAR indicates "Non".

In both scenarios, the most likely cause is due to an error in keying the PAR. If the PAR is incorrect, the agency will correct the error based on our notification and no AR will be established.

If an overpayment condition is corrected after an AR is established, the payroll system will identify these situations (in most cases) and staff will reverse the AR. This should not require any action on the part of the agency.

Once the agency collection AR has been established, the department staff will have the AR half-slip information for the repayment discussion with their employee. This new process does not change the department/campus responsibility for notifying their employees of the salary overpayment or impending ARs (refer to PPM Section I 010). For those agencies that mail the AR half-slip to their employees for notification purposes, the employee's social security number must be blocked out to comply with SB 25. If the employee elects to have payroll deduction or (for eligible employees) leave offset as the method of collection, then a Form STD. 674 AR would be completed according to our current procedures. Also, when an AR is satisfied via agency collection, a form STD. 995A, Non-USPS-Agency Collection Accounts Receivable is required to ensure accurate reporting of the employees' taxable income. Refer to Section I 178/179 for instructions.

Changes to the Payroll Procedures Manual are forthcoming. Should you have any questions or concerns regarding this new procedure, contact Ann Mitchell at (916) 322-7978 or anmitchell@sco.ca.gov.

JRH:PPOB:AM